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Competitor Review - March 1995

1994 Industry Review

1994 Operating Results ($ Millions)

	Unit Volume	Net Revenues	Total Expenses	Operating Income	% Change	Operating Margin
PM-USA	219.4	$8,494	5,192	$3,302	17.6%	38.9%
RJR	130.6	4,570	3,095	1,475	22.9	32.3
B&W	55.4	1,800	1,325	475(1)	82.7	26.4
ATC	36.3	1,159	911	248	31.9	21.4
LOR	36.6	1,477	893	584	(1.5)	39.5
LIG	11.3	330	296	34	100+	10.3
Total	489.6	$17,830	$11,712	$6,118	21.2%	34.3%

(1) Revised Estimate

	Per Thousand			Share of Industry		
	Net Revenues	Total Expenses	Operating Income	Net Revenues	Total Expenses	Operating Income
PM-USA	$38.71	$23.66	$15.05	47.6%	44.3%	54.0%
RJR	34.99	23.70	11.29	25.6	26.4	24.1
B&W	32.49	23.92	8.57	10.1	11.3	7.8
ATC	31.93	25.10	6.83	6.5	7.8	4.1
LOR	40.36	24.40	15.96	8.3	7.6	9.6
LIG	29.20	26.19	3.01	1.9	2.6	0.4
Total	$36.42	$23.92	$12.50	100.0%	100.0%	100.0%

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Notes: Net revenues exclude FET

1994 Industry Review

Industry operating income rebounded by 21% in 1994 versus a 1993 decline of 47% due to the market share stabilization of key premium brands, improved discount brand margins resulting primarily from reductions in price promotion, and cost savings resulting from restructuring. With the exception of Lorillard, all competitors posted improved profits in 1994.

Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

PM-USA reported the highest share of industry income, more than twice that of RJR. Lorillard posted the highest operating margin and operating income per thousand as a result of its high premium brand volume mix (96%). PM-USA registered the lowest total expenses per thousand in the industry, while Liggett posted the highest.

Competitor 1994 Performance

RJR full year 1994 operating income jumped 22.9% to $1,475 million, in line with analysts' estimates. The profit increase was due to marketing spending cuts (price promotion), an improved premium volume mix (+3.6 points), and reduced operating costs resulting from its 1993 restructuring.

An analysis of operating expenses indicates that RJR reduced spending on a per thousand basis by 10.9% in 1994. As a result of the spending reductions and improved volume mix, operating margin jumped 8 points to 32.3%. Net sales for 1994 fell 7.7% to $4,570 million due to a 7.4% unit volume decline, partially offset by mix improvement. We speculate that RJR managed earnings to a small degree in the fourth quarter, possibly shifting forward an additional $25 million to $50 million in expenses from first quarter 1995 in an effort to make operating income growth less difficult this year.

RJR made a strategic decision in 1994 to reduce support for deep discount products. Although the unit volume decline effected net sales, deep discount margins were low enough as to not have a material impact on operating income. Core brands: Winston, Camel, Salem and Doral, continue to experience stable retail share trends. It is expected that RJR will focus its marketing efforts in 1995 toward these brands in an attempt to improve their long-term competitive position.

The possible erosion of volume this year poses a significant risk to RJR. The company is under pressure to improve on 1994 profits going forward and if RJR's core brand volume declines at an unacceptable rate, Reynolds may respond by implementing spending cuts, which could lead to further volume losses, or move to accelerate price increases.

B&W USA estimated profits rebounded sharply in 1994, rising over 80% to $475 million (revised est.) due to higher volume, improved mix, higher discount brand margins, particularly for GPC and lower fixed costs stemming from the 1993 restructuring. Unit volume increased 10% to 55.4 billion partially due the stabilization of Kool retail share and GPC growth. However, for the most part, the favorable year to year comparison is the result of depressed shipments in 1993 resulting from trade destocking. Higher shipments of Kool (+27%) led to a mix improvement of 3.6 points, increasing Premium contribution to 40% of B&W total volume.

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B&W's market position was bolstered by the acquisition of ATC last December. Besides obtaining approximately $200 million (excl. Montclair) in ATC annual profits, the elimination of redundant costs is expected to generate an additional $220 million in savings by 1996. It is expected that a good portion of these funds will be channeled to B&W's discount brands, specifically GPC. The brand is the focal point of B&W's growth strategy and the driving force behind the company realizing its goal of being the number two player in the US within the next ten years.

American operating income for 1994 reached $248 million, up 46% versus year-ago as net sales increased 6% to $1.2 billion. Year-to-date unit volume increased 17% due to very strong performances by discount brands Montclair (+78%) and Misty (+32%). Montclair

Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

was the focus of an intense marketing effort by the American sales force in the fourth quarter. In testimony to the FTC during hearings on the BAT/ATC merger, ATC senior management testified that promotion levels on Montclair in the fourth quarter were seriously impairing the brand's profitability and were not sustainable. In addition, premium volume increased over 3% due to improved trends for Carlton and Pall Mall. Besides higher volume, management stated that year-to-date profits benefited from costs savings stemming from the 1993 restructuring.

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Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

Lorillard operating income decreased 1.5% to $584 million in 1994, slightly below our estimate of $593 million and in-line with industry analysts' projections. Revenues excluding FET were down 3% to $1,477 million as higher unit volume didn't completely offset the effect of the 1993 list price reduction. Revenues per thousand illustrate the impact of the pricing action, falling 13% to $40.36 per M from $46.53 in 1993. Operating income while flat in absolute dollars, declined by 12% on a per thousand basis to $15.96. Total operating expenses per thousand decreased 14% to $24.40 versus $28.37 partially due to lower media expenditures, but primarily due to the industry wide reduction of the dollar value of pack and carton discounts following the 1993 list price reduction.

Unlike other competitors, Lorillard did not restructure its operations to compensate for lower premium brand margins due to the 1993 price reductions. In addition, Lorillard's discount franchises are not large enough to provide a significant benefit from the improvement in discount margins this year. (Premium brands account for 96% of Lorillard's year to date volume).

Liggett reported 1994 profits of $33.6 million, up from operating income before one-time charges of $6 million in 1993. The increase is primarily due to lower promotional expenses and cost reduction programs implemented during 1993. Unit volume was up 4.8% to 11.3 billion units, with Discount representing 75% of total volume. Liggett's parent, Brooke Group Limited, took steps to improve its poor financial position in late 1994 by selling its New Valley Corp. (Western Union) division.

R.J. REYNOLDS

1994 Strategy

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The following excerpts were taken from RJR's 1994 Annual Report:

- Core Brands

In 1994, Reynolds Tobacco invested where it mattered most to earnings: core brands. Reynolds Tobacco invested substantial resources—particularly during the second half—to improve share performance of full-price brands and to stabilize share in the savings segment. Although RJ Reynolds's total retail share is down about two points from 1993, core brands improved. Most of the share decline occurred in lower-margin savings brands.

- Innovation in Marketing and Promotion

Reynolds Tobacco supports core brands with innovative marketing and promotions. High-impact "conversion" and "continuity" programs are designed to convert competitive adult smokers to RJR brands, and to solidify brand loyalty among RJR customers. Core brands—primarily Camel, Winston Select and Doral—responded well to renewed marketing efforts, showing share growth for the year.

Additional support for Camel was generated by new, contemporary advertising. Consumer testing of the advertising theme, "Genuine Taste," indicates a significantly improved perception of the brand, especially among competitive adult smokers.

New advertising for Winston Select, "Perfectly Aged," highlights smooth flavor and superior quality. The advertising is reinforced through a catalog introduced in late 1994, offering

Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

adult consumers branded merchandise in exchange for proofs of purchase.

The company's advertising strategy for Doral emphasizes building equity for the brand, a leader in the savings segment. Doral, however, is more than a savings brand, with wide appeal to consumers who are not just price-oriented.

To support Doral, Reynolds Tobacco introduced new packaging and advertising during 1994. The advertising goes head-to-head with competitive brands, emphasizing Doral's quality and value, noting that "Only the Price is Basic."

In addition, a number of RJR brands are supported with "relationship marketing" employing a variety of promotional strategies, including branded merchandise, discount resort packages, interactive games, travel services, and other offers. These programs are highly effective in retaining current customers and reaching adult competitive smokers.

Winston Select Flavor Filter

RJR studies reportedly show that the Winston Select Flavor Filter is a new carbon-containing filter which reduces mainstream smoke when compared to the standard filter in commercially available cigarettes.

The Select Flavor Filter is a chamber-type unlike the Japanese filter, which has tiny pieces of charcoal dispersed throughout the cellulose acetate filter. RJR's product is characterized by a dual filter, where the inner filter portion consists of black corrugated paper containing carbon. The outer filter is cellulose acetate with Y-shaped fibers.

The product is being test marketed in Oklahoma City.

The following T&N table is for the Select Flavor Filter product:

-FF 85 SP: 16 mg. Tar / 1.3 mg Nicotine

-FF 83 Box: 16 mg. Tar / 1.3 mg Nicotine

-Lt. 85 SP: 10 mg. Tar / 0.8 mg Nicotine

-Lt. 83 Box: 11 mg. Tar / 0.9 mg Nicotine

-Lt. 100 SP: 10 mg. Tar / 0.9 mg Nicotine

-Slim LT. Box: 9 mg. Tar / 0.7 mg Nicotine

Select Flavor Filter Spreading

Winston Select Flavor Filters are showing up in more retail outlets in Oklahoma. RJR has a B1G1F introductory offer on all packings in Convenience outlets. A Smokeshop owner in Checotah, OK says RJR will be running a $4 off carton promotion on all packings towards the end of April. No ads or POSM has been seen except counter display headers and temporary cardboard displays.

Test Market Expands for Salem Preferred

According to published reports, RJR will expand the test market for Salem Preferred to Chicago in April. Billboard ads are expected to appear during the first week of April and ads can later be seen in newspapers, magazines, and POS displays. The company's reduced-odor cigarette has been tested in military bases across the US and on Long Island

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Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

in New York. A date for national rollout of the brand has not been scheduled. RJR spokesperson Frank Lester commented that in general, smokers' biggest concern other than price was the smell of cigarettes.

(A RJR VP reportedly told an outside research firm that his company is seriously considering a national launch of its Salem Preferred brand.)

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Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

Problems with Eclipse

Former asbestos manufacturer, Manville Corporation filed suit in U.S. District court in Denver asking to be released from a contract with RJR to supply glass fiber for an experimental cigarette filter. The company has been providing RJR with glass fiber for testing of the cigarette since 1992. According to reports, the lawsuit said that both companies understood that Manville's glass fiber would only be used "for development purposes and not commercial production of a new cigarette product."

A researcher at the Roswell Park Cancer Institute, John F. Pauly concludes after analyzing samples of Eclipse that glass fiber is a key component. He commented that "it could be difficult to find a good insulator that's cheap and poses no health problems." According to sources, there is a remote possibility that if RJR cannot settle its dispute with Manville, RJR will consider sourcing glass fiber from the Archer Company. Among other companies that RJR could consider, Pfizer Inc. is definitely not an alternative since a new policy of theirs prohibits units from doing business with "Big Tobacco" and its suppliers. This issue could create a possible delay in the planned launch of Eclipse later this year. The new brand was expected to be launched in the 4Q 1995.

It is expected that production of Eclipse will be transferred from the company's Shorefair plant (where the estimated annual production capacity is 14 billion units) to Whitaker Park. Production of other brands which currently takes place at Whitaker Park, is expected to be moved to the RJR Tobaccoville plant. The sale of the Shorefair plant may serve as an indicator for the upcoming national roll-out of Eclipse. In the meantime, security at Shorefair is thought to be very tight. Shorefair employees are searched by security guards before leaving the building to ensure that they don't leave with any samples of Eclipse.

Eclipse is RJR's second attempt to market a smokeless cigarette. Its first try was called Premier and after spending $300 million, the company discontinued the product because smokers complained about the taste.

Distributor Assist

RJR is offering distributor assistance for Doral, Camel, and Select at various times throughout 1995. During February, May, August, and November Doral has 25¢ off one pack. B1G1F, 60¢ off two packs, and 80¢ off two packs will be available on Camel and Select throughout the other months (except December). Each retail account will be allowed to purchase one 4-carton deal for each month.

Direct Mail Activities

-Salem

Salem offers to its "most preferred members" a chance to "Break Away to Refreshing Taste." The offers include:

- free carton of any style Salem or a $10 rebate with 95 proofs of purchase
- Motown's greatest hits on four cassettes ($24) or four CDs ($34).

The mailing pictures a snow covered mountain scene with blue skies that fade into sparkling blue ocean water.

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Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

-Camel

Camel's Genuine Taste Headquarters has distributed the last of three Genuine Taste surveys. The survey seeks participants' reaction to product taste, age, and blend using various advertising messages as multiple choice answers. The smoker is also asked about his or her interest in motorcycle events and billiards. Respondents were able to specify their desired style of Camel cigarettes which they will receive for completing the surveys.

The mail out included two $3-off coupons good for the purchase of four packs or a carton on any style of Camel. Coupons expire 4/27/95.

New Tactics for Doral

In Michigan, RJR is trying a "Suggestive Selling" Program for Doral. When consumers ask for Basic or Montclair, the clerk is to suggest Doral. Most stores offering this six-week program (March - April) have a buydown of 20¢ to 30¢ per pack. If Doral sales increase by five cartons per week, the account receives a Camel Racing Jacket. An increase of eight cartons per week earns the jacket and a Camel Racing Sweatshirt. Ten cartons per week improvement wins the jacket, sweatshirt, and a Camel Zippo Lighter. Sales are tracked via store invoices and incentives are given to the clerk who sold the most through suggestive selling.

Camel Bar Program

RJR has launched a program in the New York City area geared toward those bars patronized by the hip, trendy downtown crowd. Various cash payments have been awarded in exchange for various things, such as exclusive product distribution and use of promotional materials. The following details were available about the program:

Cafe Tabac was offered $1,000 to use the promotional ashtrays for 6 months.

Mercury Lounge and 2A were offered $1,000 cash up front to sell Camel and Camel Lights exclusively. They were also offered $2200 within 10 months for sponsorship of bands and first right of refusal if competitor made counter offer.

Naked Lunch was offered $1,000 cash up front for exclusive distribution of Camel and Camel Lights, shirts for the entire staff with their name on the front and small Camel logo on the sleeve only, 50 "expensive" lighters, and free product.

Merc Bar and Match were offered $1,000 to carry Camel and Camel Lights exclusively for six months, free product for staff use, and free product to open up behind the bar and give out to customers.

Brand Modifications

-Doral

FF KS (SP) - Recon. Leaf (RL) reduced from 28% to 21%

- Expanded Stems (ES) increased from 11% to 16%

- Expanded Tob. (ET) reduced from 27% to 18%

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Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

- Tob. Wt., grams increased from 0.659 to 0.714

The above changes to RL, ES, and ET were also made to other packings of Doral (FF Menthol KS SP, Lights KS SP, Lights Menthol KS SP, Ultra Lights KS SP, FF 100 SP, FF Menthol 100 SP, Lights Menthol 100 SP, and Ultra Lights 100 SP).

-Winston

KS (SP) - RL increased from 27% to 29%

- ET increased from 9% to 10%

100 (SP) - ET increased from 9% to 10%

Select KS (SP) - RL decreased from 25% to 8%

Select Lights KS (SP) - ES increased from 0% to 8%

RJR Attacks Retail Masters Accounts

In Michigan, RJR reps have reportedly started calling on stores they have previously not visited. They are seeking out PM lower volume accounts on Retail Masters and proposing rack placements (16 facings-FM), giving plastic clocks to place near the selling area (non-prime positions), and making payments of $40 a month. They are selling FFs and Lts. soft packs in their Camel B1G1F gravity feed display (no payment) and promising to call on these accounts once a month.

RJR Private Label, Jacks Buydown

It is reported that the Wawa chain dropped the price of Jacks to 99¢ effective March 5, 1995 in the states of Pennsylvania, Maryland, and Delaware. This buydown will be in effect until June. RJR is buying down using accrual funds under the Jacks program.

	Current Price Gap w/ Marlboro	Old Price of Jacks	Price of Marlboro
Pennsylvania	66%	$1.09	$1.65
Maryland	80%	$1.22	$1.79
Delaware	61%	$1.09	$1.60

A-Plus (Sun Company) has had their RJR private label, Cimarron at 99¢ since 4Q 1994.

Promotions

In line with competitive promotions discussed in last month's Review, Camel is running a B3G3F promotion in the Syracuse and Buffalo Districts, as well as in Arizona according to sources.

In Syracuse, buy-downs of GPC and other price value brands have created a third tier in some stores. GPC coupons dropped to 20¢ from 25¢ and to 10¢ from 15¢ (very high penetration). Additionally, Newport was 25-30¢ off per pack.

In Buffalo, GPC was bought down to meet Monarch, Doral, and Montclair in mega Native American calls.

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Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

In the Albany district, activity from B&W continues to intensify with its new merchandising contract (silver/gold/platinum program). Details of the program were reported last month. On the surface it would appear to be a category management program, but in practice it is in direct conflict with our Retail Masters program with a focus on a Misty/Montclair and GPC display.

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Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

Other promotions being run in various areas of New York state are shown below:

Winston (Buffalo)*	"Home Improvements" mail-in offers for GE Spacemaker products, cordless Skill screwdriver, Better Homes and Gardens books, and Burpee garden tools.
Winston King (Syracuse)	B2G1F (low penetration)
Winston Select (Buffalo)	$10.00 carton offer at Native American calls
Doral (Syracuse)	Five free packs with carton (lower penetration and high inventory in mega outlets)
Private Stock (Buffalo)	$5.75 carton offer at Native American calls

* Also implemented by RJR in Arizona for its Winston and Salem brands.

Financial Changes

The Board of RJR Nabisco Holdings Corp. approved a dividend on its common stock for the first time since 1989 when the company was bought out by Kohberg Kravis Roberts & Company (KKR). RJR Nabisco is to pay a regular quarterly cash dividend of 7.5¢ on each share of its common stock starting April 1st. The company also announced a 1-for-5 reverse split of its common stock that raised the value to the mid-$20 range from its recent average of about $5 a share. Charles M. Harper, the Chairman and Chief Executive of RJR Nabisco said that the moves were two of several "steps in recent years to strengthen the company's balance sheet and gain financial flexibility." It is said that the decision to pay dividends and reverse split was unanimously approved by the RJR Board, seven members (out of 16) of whom are KKR officers.

According to an RJR Nabisco Holdings Corp. proxy statement (3/20/95), the primary reason for the reverse split is to reduce the number of shares of common stock outstanding. The Board of Directors feels that the current number of shares outstanding is too large relative to the company's present market capitalization. Also, sales force efforts and cost savings could be seen more clearly if a smaller number of shares were outstanding. The Board of Directors hopes that the proposed reverse stock split will result in a price level that will increase investor interest and reduce resistance of brokerage firms to recommend the common stock.

Based upon approximately 1.4 billion shares of common stock outstanding on March 16, 1995, the 1-for-5 reverse stock split would decrease outstanding shares of common stock by 80% to approximately 272.4 million shares.

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Predictions from Financial Analyst Gary Black

As of 3/7/95, Sanford C. Bernstein analyst Gary Black predicts that continuing litigation uncertainty is likely to lead both Philip Morris and RJR to accelerate efforts to deliver value to shareholders. For PM he expects this to be accomplished with stepped-up share repurchases and sharply higher dividends. For RJR he foresees the spin-off of the remaining 80.5% of Nabisco in early 1996.

For RJR, he anticipates a $7.75 value on the company by mid-1996 with spin-off of the remaining Nabisco shares, assuming 7.0% yield on stand-alone Reynolds Tobacco.

Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

In response to RJR's continued share loss, Black comments that while share is declining, it is share on which the company makes relatively no profit. He noted that excluding private label and Winston Select volume, RJR's share has been flat since 2Q 1993 at around 22%. However, he continued, total share has dropped from 30.6% in 1993 to 26.7% in 1994, to an estimated 25.8% in 1995.

Bio on New Vice President

Kevin L. Verner, who was named Vice President of New Business Development in December 1994, joined Reynolds Tobacco in 1981 as a Senior Marketing Research Analyst. By 1986 he had been promoted to three positions including Brand Manager. In June of 1988 he was promoted to Senior Brand Manager for Salem cigarettes. He went on to become Director of Public Policy Development in 1990 and Director of New Business Development in 1993, the last position he held before his recent promotion.

Verner has a Bachelor of Arts degree from the University of Michigan (1980) and started his career as a Marketing Research Analyst at Champion Spark Plugs.

Kevin Verner formerly Director and now Vice President of New Business Development, is involved with the Eclipse project but not with the test of Salem Preferred (it is being handled by the Salem Brand Manager).

Personnel Changes for RJR

The city of Winston-Salem along with the county of Forsyth have invested over $7.7 million to entice companies to the area. RJR is one of the companies which bought into the deal, promising 250 new jobs for which it would receive $500,000 from the city and county. The positions are expected to be spread across marketing, engineering, and R&D.

Contrary to the story above, RJR has reportedly offered both hourly and salaried manufacturing workers an early retirement package similar to last year's offering (two weeks salary for every year of company service) except for the elimination of a nine-week bonus. Since the start of the year, 100 employees have accepted the early retirement package.

On a separate issue, in response to the retirement of RJR Nabisco Holdings Corp.'s president and general counsel Lawrence R. Ricciardi (effective March 3, 1995), a spokesperson for the company said there are no immediate plans to fill the position of president. Ricciardi at the age of 54, was the third highest paid RJR Nabisco executive in 1994, earning $1.95 million in salary, bonuses, and restricted stock awards.

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CFO Wilson Resigns

Stephen R. Wilson, chief financial officer at RJR Nabisco Holdings Corp., has resigned to take the CFO position at Reader's Digest. Before becoming CFO at RJR in 1993, Wilson was senior vice president of corporate development, a position he took in 1990. He is leaving RJR after finishing his most ambitious project, which was leading the company's attempt to sell a 20 percent stake in its Nabisco food unit to the public.

New SVP and General Counsel at RJRT

RJRT promoted Charles A. Blixt to SVP and general counsel. Mr. Blixt, 43, succeeds

Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

Wayne W. Juchatz, who was named as the EVP and general counsel of Textron Inc.

New equipment

It has been reported that RJR is considering the purchase of 4 to 6 Focke 700's (high speed machinery that puts out 700 packs per minute). These units match the Protos 2's which have a production rate of 14,000 cigarettes per minute. The new equipment will probably be placed in the Tobaccoville plant.

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Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

B&W Hands Over Documents

According to reports, B&W turned over internal documents on smoking and health in compliance with a Mississippi judge's order. Jones Circuit Judge Billy J. Landrum will examine the documents to determine if they're privileged. The company argues that the documents were stolen and are protected by attorney-client privilege, and therefore should not be admissible in court. B&W is facing a lawsuit by Burl Butler's estate which claims Butler got lung cancer by inhaling environmental tobacco smoke.

Possible New BAT Chairman

The London Financial Times reports that there appears to be no one in line for the position of Chairman of BAT Industries when current chairman Sir Patrick Sheehy, age 64, leaves the company. Sir David Scholey was thought by some to be the perfect candidate until he decided to postpone his retirement from the House of Warburg. Others consider Lord Cairns, who has been on the BAT board for five years, a likely candidate. BAT Industries is the sixth largest company in Britain.

Sir Patrick Sheehy joined BAT in 1950. Twenty years later he had become Director, and by 1982 he held the position of Chairman.

Bids for Montclair

During a press conference B&W stated that it received bids for the seven discount brands it is required to sell, the biggest of which is Montclair. The company did not disclose the bidders, but Liggett and Lorillard are thought to be the most likely candidates to purchase these brands.

Financial analyst Gary Black speculates that Liggett will purchase Montclair for $50—$60 million, making the brand the company's largest. Black also suggests that since Liggett doesn't have a standing salesforce, it could hire some of the salespeople laid off from B&W and American. Black thinks it is also possible that Lorillard is interested in purchasing the Montclair brand at a lower price.

Black predicts that B&W will become more aggressive and will be better able to compete with the trade programs of Philip Morris and RJ Reynolds.

New Jobs in Louisville

Reports say that B&W will be transferring 50 jobs from Connecticut and North Carolina to Louisville as it consolidates its operations. The company currently employs about 550 people in Louisville and the new jobs are marketing and administration positions. The state has agreed to credit $3.7 million in corporate income tax over the next 10 years in exchange for the new jobs in Louisville. Thirty six of the 50 jobs have estimated salaries of $65,000 and the remaining 14 jobs are expected to pay $35,000 a year.

Reidsville Plant Workers Reach Agreement

According to the Danville Register and Tribune Business News, workers voted 648-41 to approve a settlement contract with B&W. B&W will move 200 new jobs to Macon, GA.

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Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

About two-thirds of the new workers will relocate from the Reidsville plant, while the remainder will be hired locally. Within the next 14 months, all of B&W's production will come from the Macon Plant, increasing to 150 billion cigarettes a year.

B&W will also invest $45 million in a new facility and equipment over the next 18 months due to the American acquisition, said by B&W's John Jewell, VP of Operations.

Under the settlement, nearly 650 Reidsville plant employees who won't qualify for transfers or early retirement will get pay and benefits for up to six months after termination, plus a week's pay for each year an employee has worked at American. The severance package also offers job-placement services and payment for education and retraining.

B&W started in April to offer 200 of the most-senior employees transfer packages to Macon. The company will pay all house-hunting and moving costs. Some of the 100 or so management-level, or salaried, employees who are not covered by the union agreement, also will receive transfer offers.

Another 50 employees, those age 55 or older or have worked at American for 30 years or more, qualify for an early retirement package. That plan offers full health and life-insurance benefits.

B&W Gives Proposal to Retail Account

Sources reveal that B&W has a merchandising proposal on the table to pay one convenience store account in South Paris, Maine $195 per month per store, including 22 service station locations. This is B&W's second proposal to the account and the payment is $30 more than the first proposal offered.

The offer is seriously being considered and would replace RJR with B&W. RJR is currently paying the account $140 per month per store and will not contract the 22 service stations. RJR's share of the account's cigarette business is 14.1% while B&W has a 20.9% share.

B&W's offer calls for a self-service, countertop premium display (Kool, Capri, and Carlton), along with a combination discount display (GPC and Montclair) in a non-self-service position, since the account would not allow B&W to display GPC on the counter. The only POS that B&W would need is interior signage for Kool and an exterior Kool ashtray at each entrance. B&W was informed that buy-downs could only be on GPC, not on Misty and Montclair as the company desired.

It is expected that RJR will have a new contract coming in April and will make a counter proposal with increased merchandising payments.

AVA Rebate Structure

B&W has begun contacting accounts to advise them of a revised rebate structure, effective April 1st, on the AVA brands (Prime, Private Stock, Summit) acquired from ATC. B&W's new structure represents an increase of 30¢/carton over ATC's former program. In addition to rebate money, the AVA brands are also eligible for payments (from 2¢/carton up to 12¢/carton) offered under B&W's recently revised direct account "Performance Plus" program. Of the total $1.38/carton in rebates, the monthly 70¢/carton rebate is intended for promotional spending to support the AVA brands (similar to RJR's "Alliance Program"), while the quarterly and semi-annual rebates, totaling 68¢/carton, can be spent or retained

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Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

at the wholesaler's discretion. It is possible that B&W might only offer the revised rebate program to their largest AVA distributors.

AVA brand sales were 6.5 billion units in 1994, an increase of nearly 10% versus 1993. Excluding Montclair, the AVA brands are the third largest franchise for the "new" B&W, after GPC and Kool and ahead of Carlton. Trade contacts have reported that AVA headquarters and sales personnel were among the few former ATC employees retained by B&W.

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Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

Bugler Tobacco Products

Sources reveal that in **Ulster** county in New York state, B&W has a part time rep working 30 hours per week selling Bugler Roll Your Own. PM sources say that a former ATC rep is also selling Bugler in Tuscon, Arizona.

New Equipment

Brown & Williamson is considering the purchase of one or more Focke 700's and Protos 2's for its facility in Macon, Ga. B&W executives visited Germany where the equipment originates, but no firm orders were made.

LORILLARD

The following excerpts about Lorillard were taken from the 1994 Annual Report of Loews Corporation:

Newport, Lorillard's flagship brand, reached a new high in unit volume this year, and the Old Gold brand grew 73% over the prior year due to a new discount price strategy.

Lorillard has almost 96% of its volume in the full price segment, which accounts for approximately two-thirds of the total market. Lorillard will continue to devote the overwhelming share of its marketing efforts to the full price segment, while at the same time exploring unique product opportunities and improving current products to capitalize on consumer preferences.

During the first quarter of 1995 construction will be completed on a central distribution ware house at Lorillard's Greensboro, NC plant, thus providing new and improved methods of storage and distribution of its products.

Lorillard's income contribution for FY ending December 31, 1994 was approximately $584 million, down from the 1993 figure of $592 million. Income contribution in 1992 was nearly $915 million.

Danville Plant

Lorillard announced that it plans to discontinue tobacco processing at its Danville plant on May 19, although it will continue to maintain its storage operations. Dibrell Brothers will be responsible for processing a major portion of Lorillard's tobacco.

Less than 30 regular employees will be affected. Half are salaried and half are hourly. The number of seasonal employees affected will be 100.

Harley-Davidson Wants Out

According to published reports, Lorillard filed suit in U.S. District Court on February 27 against Harley-Davidson claiming the company improperly rejected an advertising campaign. Lorillard is suing for damages and reimbursement of $70 million spent on the development of the Harley brand. The ad featured a character thought by some to look like Darth Vader on a motorcylce against a neon background. Harley opposed the ad because they say it will appeal to children.

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Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

Harley-Davidson filed a counterclaim to try to end the nine-year licensing agreement with Lorillard. Harley claims to be concerned about the possibility that liability suits against Lorillard could leave the tobacco company unable to honor its contract with Harley.

New Ad Agency to Handle Newport

Compton Partners, Saatchi & Saatchi Advertising in New York will handle the Newport cigarette account, with billings estimated at $30 million. Compton Partners was the agency that lost the Kool account and other B&W brands last March. A new campaign is expected to start in late summer.

LIGGETT

LeBow Considers Purchase

Reports state that financier Bennett S. LeBow is close to buying a small employee-owned investment bank by the name of Ladenburg, Thalmann & Co for $30 million. LeBow holds a 60% stake in the Brooke Group Ltd. (Liggett Tobacco) through which he owns a controlling stake in New Valley. LeBow has previously come under criticism for some of his past investments. This would be LeBow's first significant purchase since his company, New Valley Corp. emerged from bankruptcy-law proceedings earlier this year.

Special Allowance Offer

In Temple, Texas, one of PM's largest direct accounts said that it received a special distribution allowance offer from Liggett. The details are shown below:

Schedule of Per Carton Payments

Category	Base Allowance	Level 1 Rebate	Level 2 Rebate	Level 3 (Plus) Rebate
Premium	$3.72(1)	$.20	$.40	$1.50
Discount	$3.17(1)	$.10	44$.10	$.40
Private Label	$3.42(1)	$.10	$.10	$.40

(1) $3.00 of this amount must be applied by distributor for retailer/consumer promotions.

A. To earn continued SDP Base Allowances, accounts must achieve 80% of quota in each and every category. (Paid on all cartons purchased).

B. **Level 1 Rebates** are earned (back to carton 1) once an account reaches 100% in a respective category, and is paid on all cartons purchased.

C. **Level 2 Rebates** are earned once an account reaches 100% in a respective category and is paid on all cartons purchased between 100% - 150% of quota. Quota shortfalls will be carried into the next quarter.

D. **Level 3 (Plus) Rebates** are earned once an account reaches 110% in a respective

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Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

category, and is paid on all cartons purchased between 110% - 150% of quota. Quota shortfalls will be carried into the next quarter.

Note: This offer has reportedly been introduced to five companies, none of which to date have accepted this offer.

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Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

Estimates of PM Earnings Raised

On 3/3/95 Sanford C. Bernstein analyst Gary Black increased his 1995 and 1996 earnings estimates on Philip Morris Cos. Inc. He predicts 15% earnings growth rate, which amounts to $6.50 per share in 1995 and $7.50 per share in 1996. Previously he had estimated a growth of about 13 or 14%, which equates to $6.40 per share in 1995 and $7.30 per share in 1996.

Merrill Lynch analyst Allan Kaplan thinks (3/6/95) Philip Morris will achieve 14.5% annual earnings growth over the next five years. Kaplan forecasts a 20% total return with a 5.5% current yield and a 14.5% earnings growth rate. Dividends, he estimates, will be raised 15% next August to $3.80 a share.

Analyst Marc Cohen of Goldman Sachs predicts that PM will reduce capital spending, resulting in $2 billion more cash over the next five years. He also expects Philip Morris to accelerate its share repurchase program.

Predictions Adjusted

Included in last month's Competitor Review was analyst Gary Black's prediction of an April 1st price increase by the cigarette industry. On April 4, 1995, Analyst Gary Black modified his prediction and now gives May 1st as the date he thinks domestic tobacco prices will increase.

KKR's Buyout of RJR No Deal for Investors

Henry Kravis of KKR had been intent on winning the biggest takeover battle, when his company bought RJR Nabisco for $25 billion, according to Business Week. On a cost adjusted basis, it was $3.1 billion of the KKR fund that went into RJR Nabisco—that was $5.62 a share. Now, the last of the fund's shares have been sold for about $5.73 each, which must be a disappointment for investors. Shareholders did receive $40 million of the fee KKR received for the Borden acquisition. While the partners' own investment of $126 million didn't appreciate, the firm did earn nearly $500 million in transaction and other fees. This figure includes a management fee of 1.5%, amounting to $279 million over five years.

Santa Fe Natural Tobacco

Sources reveal that the manufacturer of American Spirit, Santa Fe Natural Tobacco has received several offers to sell the company. RJR is said to have approached Santa Fe's president, Robin Sommers and its largest shareholder Leigh Park. Sommers and Park are reportedly not looking to sell the company and did not view the offers as serious, although they would consider selling for the "right price."

The company has a total of 86 shareholders and no further shares are being issued. Together, Sommers and Park own more than 50% of the outstanding shares.

The Santa Fe Natural Tobacco company has a federal license as a cigarette manufacturer. Although it does not own a manufacturing facility, company executives indicate that it is in the process of acquiring one. No information about the location of the facility is available.

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Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

Free Spirit Cigarettes

The recently introduced Free Spirit cigarette is claimed by its manufacturer to be "all natural tobaccos, additive free." It is being offered by mail directly to retail at $13.66 per carton (includes $3.70 SET).

The cigarettes are distributed by Kretek Distributors Inc. in Moorpark, CA. Started in December of 1983, the company currently employs 15 people.

Exact, a New Private Label

A new brand called Exact is being manufactured by Smokin' Joe's on a Native American reservation in Lewiston, New York. The cigarettes are being sold in smoke shops on the reservation including a store called Bedell where they are priced at $5.25 per carton. Another account is retailing the Exact brand at $6.75, while Doral and GPC cost $7.75 per carton.

Off reservations, a former American Tobacco employee is known to be selling Exact for Smokin Joe's, which is said to have a 2 or 3 person salesforce. The product is reported to be available through Attea Brothers with the price ranging from $9.50 to $10.95 per carton.

The product brochure from the manufacturer gives potential retail buyers information about the cigarettes. The brochure claims the cigarettes are made of only premium quality American blend tobaccos. The cost to retailers is approximately $3.00 less per carton than generic cigarettes and wholesale profit on Exact is 12.625% per carton. Currently full flavor, lights, and menthols are available. Due out early in April are menthol lights and in July all styles of 100's should be available. According to the brochure, Exact captured 11% market share in a three month test market, but the market was not identified.

Magic Brand Cigarettes

A new cigarette called Magic is said to contain no tobacco or nicotine. According to the package, the product is made with "only the finest natural herbs." Magic herbal filter cigarettes, which are not sold on the east coast come in simple packaging with a five point star in the center and the words "the cigarette of the future" written underneath. A toll free number is given on the side of the pack for orders.

The herbal cigarettes are manufactured in England for a company called Tobacco Alternative, Inc. in Buffalo, New York. Employed there are 28 people including officers and 14 part-time workers. The company was started by its president, Joseph Pandolfino in 1992.

Master Distributor Proposal from Star Tobacco

Star Tobacco has introduced its Master Distributor Marketing Proposal for Gunsmoke. Benefits to Gunsmoke Distributors were described in the proposal as follows:

1. Lowest cost price for the highest quality brand cigarette in the USA
2. Local program with national exposure
3. No development costs or risks (minimum purchases, pos materials, no advertising expense, not a direct competitor to manufacturers)
4. No development or lead times—product is available now

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Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

5. Product quality (made in the USA, 100% natural tobaccos, no puff tobacco, no reconstituted tobacco)
6. Full product line (kings, 100's, box, soft pack)
7. Minivan program (576-12M case initial order; minimum purchase requirements thereafter to retain van)

Commonwealth Brands Introduces New Product

C&G Tobacco in Kansas has received a complete selling package from Commonwealth Brands of its new product line called USA Gold. Each pack design features a banner of white stars on a blue background trailing a gold colored eagle in flight. The selling package includes one sample of each of the 11 packings, product details, price list, return policy, distributor agreement, and a small poster. Pricing is shown below. [Product samples have been sent to PM R&D for analysis.]

	Per Carton
List Price	$8.49
Less	
Terms	$0.27
Trade Discount	$2.38
Allowance	$0.35
EFT Allowance	$0.10
Net Price	$5.39

(C&G Tobacco has recently decided not to carry the USA Gold line.)

Menthol X Brand Cigarettes Attacked

Production of Menthol X brand cigarettes has been discontinued due to protests that the packaging uses images associated with Malcolm X to attract smokers of the black community. The boxes resemble a poster used to promote the movie "Malcolm X" about the assassinated black Muslim leader. The pack is decorated in the African national flag's colors of black, red, and green which some say are symbolic of black culture.

The brand's marketing company, Stowebridge Brook Distributors, claims that the X on the packaging was intended to be the Roman numeral ten, signifying that the pack held only ten cigarettes. After deciding to package the usual twenty cigarettes rather than ten, the distributors claim they kept the name because "the pack was already designed." Chris Duffy of Stowebridge Brook Distributors claims the coloring of the package was a "coincidence," and that he did not know they were a symbol in the African American community. Stowebridge agreed to pull the brand in order to end any controversy. The brand is manufactured by Star Tobacco Corp., whose chairman Samuel Sears said the connection between the cigarettes and the slain black leader was not intentional.

Cigarette Specialty Stores

Brandweek Magazine says that cigarette specialty stores began appearing in the United States about three years ago and already account for 3% of all US sales. These stores are similar to other specialty chains like Office Depot and Toys "R" Us in that they offer the combination of good value and wide selection. And, increasingly hard for smokers to find, a friendly atmosphere is an attracting feature of the cigarette superstores.

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Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

Brandweek Magazine wrote that Superstores tend to be one link closer to manufacturers than regular retail outlets. "It seems natural the next step will be for [manufacturers] to get into retailing themselves," predicts Brandweek Magazine. When asked about the possibility of getting into direct marketing, RJR's vice president of trade development, Larry Schreiber expressed no intentions. He said the company uses its database of 35 million names "to establish a relationship, to accomplish more brand loyalty." "We'd rather continue to drive consumers to the normal outlets they buy from," he finished.

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Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

Cigar Dinners Becoming Popular

Cigar dinners, also known as "smokers", are increasing in popularity these days. Cigar authority Richard Hacker of Beverly Hills, CA said "cigar smokers are a social group, and [cigar dinners] are a means for them to get together." Another reason for the increasing trend of "smokers" is that "there are few places left where you can smoke a cigar without incurring the wrath of nonsmokers," Hacker commented.

In New York's San Domenico restaurant customers can join the Cigar Connoisseur Club for $225. Smokers have privileged access to the dining room every Monday night.

In March, fine hotels across the country including the JW Marriott in Washington and the Fairmont Hotel in Chicago hosted "The Big Smoke." The event, sponsored by *Cigar Aficionado* magazine, was an opportunity for smokers to enjoy handmade cigars from around the world.

Miles Joins Board of Dell

Michael A. Miles, former Chairman and CEO of Philip Morris was named to the Board of Directors of Dell Computer Corporation. He is also on the Board of Sears Roebuck and Co., Dean Witter, Discover & Co., and Time Warner Inc.

Cigarette Smuggling

In Arizona, the Department of Revenue has seized as contraband approximately 7,400 cartons of cigarettes that did not have tax stamps. Associated Press reports that cigarette smuggling activity began in response to Arizona's recent tax hike to 58¢ per pack, the third highest state tax rate in the nation. Neighboring states have taxes that range from 20¢ to 37¢ per pack.

The same problem exists in Michigan due to a tax increase in May of 1994 from 25¢ to 75¢ per pack, the highest tax in the country. Smuggling more than $50 (wholesale value) worth of cigarettes into Michigan is a five year felony. Retailers in North Carolina told reporters that people in vans and trucks with Michigan license plates often make huge cash purchases of cigarettes, but usually keep the purchase under $10,000 to avoid federal paperwork.

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Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

Legal/legislative environment - summary

What	Who	Issue/Risk	Next step(s)/Implications
Class Action Litigation	Castano	Alleges nicotine addiction	On 2/17/95, Judge Jones issued his ruling partially granting plaintiffs' request for class certification on the following liability issues: fraud, breach of warranty (express or implied), intentional tort, negligence, strict liability, consumer protection and punitive damages. The issues which Judge Jones ruled were not appropriate for class certification were: injury-in-fact, proximate cause, reliance, affirmative defenses, compensatory damages and medical monitoring. On March 8, 1995, defendants filed a motion, for certification of an interlocutory appeal. Also on 3/8/95, plaintiffs submitted their proposed plan for publication of the class notice in over 800 magazines and newspapers and the creation of a 900 telephone number. On 3/9/95, defendants requested that the court stay consideration of plaintiffs' notice plan until the court rules on defendant's motion requesting an appeal. On 3/20/95, defendants filed a supplemental brief in support of their motion for certification of appeal based on Judge Posner's ruling in the Wadleigh case in the Seventh Circuit Court of Appeals.
	Engle	Alleges nicotine addiction	On 12/14/94, defendants filed their brief in support of their appeal to the Florida Third District Court of Appeal of the 10/31/94 order granting plaintiffs' motion for class certification. On 1/2/95, the Florida Court of Appeal denied defendants' motion seeking certification of the October order to the Florida Supreme Court. On 3/27/95, plaintiffs filed their brief in opposition to defendants' appeal of the class certification order.
	Broin	Flight attendants' ETS claims	On 1/11/95, defendants noticed their appeal of Judge Kaye's 12/12/94 order granting class certification. Defendants' brief in support of their appeal was filed on 3/28/95. On 1/9/95, plaintiffs filed their brief in opposition to defendants' appeal to the Florida Supreme Court from the 3/15/94 decision of the Florida Court of Appeals that reinstated plaintiffs' class action allegations. There have been no new developments on this appeal.

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Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

Court Cases	Rogers	Smoking and Health	Opening statements were presented by both sides on 2/2/95. Thereafter, plaintiff presented her case-in-chief. On 2/14/95, Judge Johnson entered judgment in favor of defendants and against plaintiff on plaintiff's claim for punitive damages, ruling that plaintiff had not submitted sufficient proof to establish her claim. On 2/15/95, plaintiff rested her case. Defendants then proceeded to offer their defense on 2/15-2/16 and rested their case at the close of the day on 2/16/95. On 2/21/95, closing statements were presented by both sides and the jury was given the case at approximately 2:00pm and deliberated until 4:30am. The jury returned at 11:30am on 2/22/95 and continued deliberations through 6:45pm at which time the jury advised they were at an impasse and Judge Johnson declared a mistrial. There have been no new developments on this matter.
	PM-ABC	Libel	On 1/26/95, Judge Markow granted PM's motion to compel ABC to disclose the identities of its "confidential sources" and denied ABC's motion to quash subpoenas filed by PM against non-parties allowing PM to obtain identifying information in the hands of those non-parties. On 1/30/95, in response to ABC's emergency application, Judge Markow stayed his 1/26/95 order pending the submission of additional briefing documents by all parties. A hearing on the matter was held on 3/1/95, Judge Markow reserved decision on the confidential source issue. ABC has been making ex-parte contacts with former employees of PM. PM made a motion for protective order which the Judge took under advisement. There will be a hearing scheduled on this issue during the week of 4/3/95.
	Ramsey-Buckingham	ETS	Plaintiff alleges she has lung cancer as a result of her exposure to environmental tobacco smoke. Plaintiff has filed a motion asking the court to convene trial prior to 9/5/95 due to her purported ill-health. On 2/9/95, the court entered a scheduling order that rejected plaintiffs request for an expedited schedule. On 2/17/95, defendants filed a motion to dismiss based on plaintiff's failure to state a claim. On 3/13/95, plaintiff filed her opposition to the motion to dismiss. On 3/20/95, defendants filed a motion for leave to file a reply to plaintiff's opposition brief and a request for oral argument. The court granted the motion, however, no date was set for the oral argument.

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Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

Legal/legislative environment - summary Cont'd.

What	Where	Issue/Risk	Next Step(s)/Implications
Smoking Restrictions	OSHA	US workplace smoking restrictions	Hearings began 9/20. The focus of testimony now through March 9 will be on the impact of the proposal on businesses. RJR testified January 17 - 19; Steve Bayard of the EPA did not testify as scheduled.
State Medicaid Bill	Massachusetts	A medicaid bill (Florida-type) was introduced in Massachusetts.	The bill would authorize the, Attorney General to bring suit against cigarette manufacturers, and to retain the services of private counsel. It would take away the defenses of assumption risk, comparative and contributory negligence.
State Medicaid Suits	Florida	Medicaid Suit	On February 21, Florida filed suit under a law passed last year that allows it to go after third parties which are thought to be responsible for increased Medicaid costs. The lawsuit is based on an unconstitutional statute that was passed through the legislature in an unconstitutional manner, and is being brought by an illegal, independent agency. The law passed last year is a blatant attempt by the trial bar to ensure a multitude of future big-dollar suits against Florida businesses. The Medicaid Act attempts to stack the deck in favor of the State against anyone it chooses to sue under the statute, including for example the alcohol industry. Philip Morris and RJ Reynolds Tobacco Company filed a petition with the Florida Supreme Court asking the Court to bar the Agency for Health Care Administration and the Department of Business and Professional Regulation from filing or maintaining the lawsuit. In January, two bills were introduced in the Florida House and Senate to repeal this statute. On March 28, 1995, the Florida Senate Commerce Committee voted in favor of repealing the Florida statute.

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Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

Mississippi	Medicaid Suit	Last May, the Mississippi Attorney General filed suit in chancery court, alleging that the tobacco companies should reimburse the state for Medicaid costs attributed to those who allegedly suffer from smoking related illnesses. The tobacco companies moved to dismiss that complaint and alternatively moved to transfer the lawsuit to circuit court, where the case could be tried by a jury. On February 21, Chancellor William Meyers, in a one page order, denied the defendants' motions and granted the plaintiff's motion to strike certain affirmative defenses. The defendants are considering whether to seek a clarification of the court's order and/or leave for an immediate appeal. There have been no new developments on this matter.

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Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

Bill Filed to Repeal Florida Law

In the Florida 1995 Legislature, a bill has been filed that would repeal last year's law that allowed Florida to sue tobacco companies.

Gunsmoke Marketing

A U.S. District Court in New York judge granted a temporary injunction that prevents the marketing of Gunsmoke brand cigarettes, a discount product manufactured by Star Tobacco. Philip Morris filed a suit in January alleging that Star Tobacco infringes on the Marlboro trademarks by copying the "Marlboro Country American West" theme. In the lawsuit, Scott Feit , Star Tobacco's marketing vice president was identified as a former Philip Morris employee. The injunction is conditional to PM posting a $5 million bond. Star Tobacco plans to appeal the decision.

Another Infringement on Marlboro Trademark

Bailey's cigarettes, which is an S&M Brands product, came in a pack that featured a red chevron thereby infringing on the Marlboro trademark and POSM graphics. When challenged by Philip Morris, S&M Brands immediately revamped the packaging graphics for its Bailey's brand.

State Tax Increase in South Dakota

The South Dakota Legislature passed a bill to increase the state cigarette tax from 10¢ to 33¢ per pack. The governor is expected to sign the bill, which also imposes a 10% state tax on the wholesale price of chewing tobacco, snuff, cigars, and pipe tobacco. The tax revenues are to be used toward reducing property taxes.

Smoking Ban in Maryland

Legislation was passed in Maryland to ban smoking in nearly all indoor workplaces in the state. The ban, which went into effect March 28, applies to factories, stores, prisons, colleges, and company cars occupied by two or more people. State legislators agreed on a compromise that exempts taverns, hotel and motel rooms, and with certain restrictions, restaurants.

Oregon Considers Smoking Bans to Aid Minors

Lawmakers in Oregon are considering some type of smoking ban for public places that are frequented by minors. They are also considering measures such as suspending driving privileges of minors caught with tobacco.

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Patents for Smoking Cessations Products

DynaGen Inc. says it has been awarded two US patents related to its non-nicotine smoking cessation products. One product is the NicErase-SL sublingual tablet formulation of L-lobeline sulfate. The other is an implantable polymer-based formulation of lobeline for once-a-week therapy.

Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

Accommodating Smokers and Non-Smokers

With the Smoke-Free Air Act going into effect on April 10 in New York, The Accommodation Program issued a report outlining the places where smoking is still permitted under the new law. That list is shown below:

- Restaurants with an indoor seating capacity of up to 35 patrons in the dining area are exempt from the new law.
- In restaurants with an indoor seating capacity of more than 35 patrons in the dining area, smoking is permitted in either the bar area or in a smoking lounge at which only beverages are offered. Up to 25% of the outdoor seating areas can be smoking.
- Bars and cabarets are exempt from the law if food sales are less than 40% of gross annual sales.
- Hotel and motel lobbies and rooms are exempt from the law.
- Hired private limousines are exempt from the law.
- Smoking is permitted in up to half of the concourse area of a bowling center, provided the perimeter of the smoking area is at least six feet from the settee area.
- Private events in enclosed rooms are exempt when seating arrangements are under the control of the sponsor.
- Billiard parlors and bingo games (except in child day care centers and in secondary and pre-secondary schools) are exempt from the law.

INTERNATIONAL TOBACCO NEWS

Bidders on Swedish Match

UK and US financial groups are expected to dominate the list of bidders on the estimated $1.59 billion sale of Swedish Match by Volvo. Several big international groups have expressed interest or been the center of speculation, such as Nestle (the Swiss food company), Philip Morris, and BAT Industries. Insiders think that Swedish Match will be sold to financial investors rather than to one of the big names which already has strong positions in the market.

According to sources, including Reuters Ltd., Scandinavian Tobacco (Denmark, the makers of Prince cigarettes) is interested in acquiring Swedish Match (Swedish Tobacco Co.). To prevent the Danish cigarette manufacturer from acquiring their company, Swedish Tobacco is considering a leveraged buyout . RJR has also been mentioned as a possible buyer of Swedish Match.

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Japan Tobacco's Export to the US

The Japan Export/Import Monthly Report showed Japan Tobacco's annual export volume to the US as follows:

CY	Units in Millions

Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

1990	180.2
1991	202.4
1992	189.6
1993	263.5
1994	284.7

Although these figures do not include shipment volume from JT's UK factory (Manchester Tobacco), they are reasonably accurate since most of UK shipments are for Asia.

BAT Pressures ITC Chairman

BAT Industries PLC rejected a proposal by its affiliate ITC Ltd. to expand into power generation. As part of a campaign to eject ITC chairman Krishan Lal Chugh, BAT opposed the affiliate's plan to enter India's energy sector. BAT said it was not ready to sanction large sums of money to build power stations because of financial irregularities during Chugh's period as chief executive. BAT was unsuccessful in its demand that Chugh resign, but was able to gain support for a probe into ITC's finances. Chugh says BAT, which currently controls 31.67% of ITC's shares, wants to acquire a 51% stake in ITC.

BAT to Produce Cigarettes in Cuba

A protocol to produce cigarettes has been signed between Cuba and Souza Cruz, a Brazilian subsidiary of BAT Industries PLC. Souza Cruz will enter into a joint venture with a state-owned company splitting the profit 50-50. According to the agreement, Cuba will provide the factory, equipment, tobacco and the workforce. Souza Cruz will provide new equipment, spare parts, and cigarette paper. The deal should be finalized in April.

Hanson Splits

Hanson has announced that it will "demerge" 34 businesses to create U.S. Industries Inc. The new company will be headed by David Clarke, CEO of what was known as Hanson's American operations. The deal will allow Hanson to return to the acquisition trail by reducing the company's debt by one third, to $2.5 billion.

Restructuring the Market in China

China's State Tobacco Monopoly Bureau proposed merging or closing 100 state-owned factories which are not profitable. The Tobacco Merchants Association reports that those factories which are making money would be merged into "efficient production groups" to improve the structure of cigarette production. The change would better utilize raw materials and reallocate technology.

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Star Light Has New Filter

TR Magazine reported in the February 1995 issue that Star Light brand was recently relaunched in Sweden "with an even more efficient Curzel Filter." The House of Blend affiliate of Svenska says it has given the filter two sections—the usual acetate section and now a carbon filter section. The R&D department at House of Blend say Star Light has a "full tobacco flavor, despite cleaner smoke."

Mail Order Program in the UK

In the United Kingdom, a cigarette brand called Death is now available by mail order for a

Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000

pound less than the recommended retail prices. Enlightened Tobacco Company has increased it's marketing budget to £1 million to promote its 14-day delivery service and advertising to young adult smokers.

Class Action Suit in Canada

A class action suit has been filed against Rothmans, Benson & Hedges Inc. (RBH) by three plaintiffs alleging they have sustained damages arising out of the use of tobacco products. RBH, which is a 60%:40% joint venture between Rothmans Inc. and Philip Morris, reported that each plaintiff is claiming damages in the amount of C$1 million punitive damages and an order requiring funding of rehabilitation centers. RBH intends to vigorously defend the action.

Price Hike in Canada

Industry analysts expect Imasco Ltd. (Imperial Tobacco Ltd.) , who makes about 65% of Canada's cigarettes, to raise prices by this summer. The excise tax recently increased by C$0.60 per carton of 200 cigarettes. Smuggling is considered to be less of a threat by Canadian Finance Minister Paul Martin because smuggling networks have been closed down. The price increase by Imasco is expected to be 3% to 5% which would add at least C$40 million to the company's 12-month sales.

Cigarette Sales Declining in Mexico

The Richmond Times reported that cigarette sales are on the decline in Mexico. Matias Gomez Barreto of Cigarros La Tabacalera Mexicana attributes the decline to three factors:

- Reduced consumer buying power due to slow economy in 1994.
- National campaign by federal health officials to eliminate smoking.
- Contraband cigarettes

Tobacco companies in Mexico are trying to form a tobacco association that would represent their interests because they feel that declining consumption is not a short term problem. There are mixed expectations about the effects NAFTA will have on tobacco sales, as tariffs drop from 40% to 0% by the year 2000.

Possible Purchase of Nicoderm Manufacturer

The New York Times reported that US drug maker Marion Merrell Dow Inc. is under consideration for purchase by German chemical conglomerate Hoechst AG. Marion is the manufacturer of Nicoderm, a smoking cessation product. As the second largest drug company in Europe, Hoechst is trying to enter the American pharmaceutical market by purchasing all the outstanding stock of Marion Merrell Dow. The possible purchase is valued at about $7.2 billion.

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Source: https://www.industrydocuments.ucsf.edu/docs/ngpk0000